

TOWNSHIP OF BAGLEY
OTSEGO COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
MARCH 31, 2004

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

| | | | |
|---|------------------------|--|------------------|
| Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name Bagley Township | County Otsego |
| Audit Date 3/31/04 | Opinion Date 6/9/04 | Date Accountant Report Submitted to State: 8/9/04 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

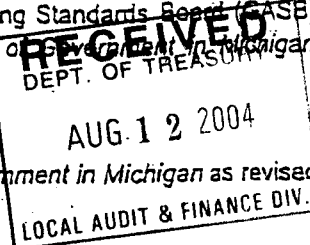
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | | | X |
| Reports on individual federal financial assistance programs (program audits). | | | X |
| Single Audit Reports (ASLGU). | | | X |

| | | | |
|--|-----------------|-------------|--------------|
| Certified Public Accountant (Firm Name) Keskine, Cook, Miller, Smith & Alexander, LLP | | | |
| Street Address 100 West First Street | City Gaylord | State MI | ZIP 49735 |
| Accountant Signature <i>Rachel Frisch</i> | | | |



TOWNSHIP OFFICIALS

SUPERVISOR

SHIRLEY JENKINS

CLERK

JAMES SZYMANSKI

TREASURER

MARY YAGER

ASSESSOR

JASON WOODCOX

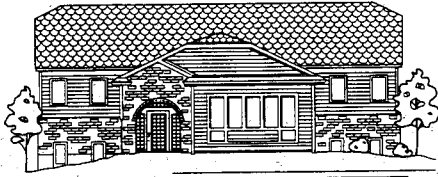
TRUSTEES

RICHARD SUMERIX

FRED BURNS

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Keskine, Cook, Miller, Smith & Alexander LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

June 9, 2004

To the Township Board
Bagley Township

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Bagley Township, Otsego County, Michigan as of and for the year ended March 31, 2004, which collectively comprise the Township's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Bagley Township, Otsego County, Michigan as of March 31, 2004, and the respective changes in financial position, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note B, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", as of March 31, 2004.

The management's discussion and analysis, on pages 3-5, and budgetary comparison information on pages 24 through 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

K K Cook Miller Smith & Alexander LLP

Keskine, Cook, Miller, Smith & Alexander, LLP
Certified Public Accountants

**TOWNSHIP OF BAGLEY
COUNTY OF OTSEGO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED MARCH 31, 2004**

This section of Township of Bagley's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2004. Please read it in conjunction with the financial statements which immediately follow this section.

Financial Highlights

Our financial status improved over the last year. Assets increased approximately \$100,000 from the prior year to total \$3,100,000, of which \$1,500,000 represents capital assets. This is an increase of 3 percent from the prior year.

Overall revenues were approximately \$450,000, of which \$20,000 represent program revenues. Overall expenses were approximately \$380,000. Revenues and expenditures are significantly less than in the prior year, due to a federal grant received and expended in the preceding fiscal year.

Overview of the Financial Statements

This annual report consists of three parts, management discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present government activities and/or business type activities. The Township engages in no business-type activities at this time.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

Government-wide Statements

The government-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two government-wide statements report net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities, and this is one method to measure the Township's financial health or position.

Over time increases or decreases in the Township's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the Township you may also have to consider additional factors such as tax base changes, facility conditions, and personnel changes.

All of the activities of the Township are reported as governmental activities, financed primarily by general revenues.

Fund Financial Statements

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. They also may be created by the Township's board. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The Township has the following kinds of funds:

General Fund – All Township activities except those required to be accounted for in a separate fund are included in the general fund. This fund is presented on the modified accrual basis, which is designed to show short-term financial information. You will note that differences between the government-wide statements and the fund statements are disclosed to explain the differences between them. Activities of the general fund are financed primarily by state shared revenue.

Liquor Law Enforcement Fund – This fund represents the liquor law services provided by the government which are financed by state shared revenue. This fund is presented on the modified accrual method. The differences from the government-wide statement presentation are disclosed.

Fiduciary Funds – The Township is a trustee or fiduciary for assets that belong to others for tax collection services. The Township maintains these funds and is responsible for insuring that the assets of these activities are spent for their intended purpose and at the direction of those individuals/organizations to whom the funds belong. These activities do not appear in the government-wide financial statements since the assets do not belong to the Township.

Financial Analysis of the Township as a Whole

Net Assets – the Township's combined net assets increased 2 percent during the year ended March 31, 2004, totaling \$3,073,571.

Financial Analysis of the Township's Funds

The General, Liquor Law Enforcement and Fiduciary Fund activities remained consistent, and the Township continued to provide the same services to its residents: administrative, assessing, elections, township hall maintenance, tax collection, road repair, fire protection, liquor law enforcement, street lights. New township activity includes expenditures in the amount of \$236,518 related to the potential sewer utility project of the Bagley Township/Otsego Lake Township Utilities Authority.

Capital Assets


The expenditures related to the sewer utility project mentioned in the preceding paragraph have been capitalized into construction in progress.

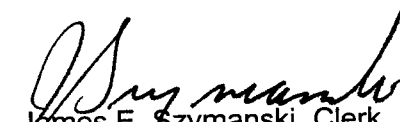
Long-Term Debt Activity

The Township has no long-term debt.

Contacting Township Management

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have questions concerning this report, please contact the Bagley Township Clerk or Supervisor at (989)732-5924.


Shirley G. Jenkins, Supervisor
Township of Bagley


James E. Szymanski, Clerk
Township of Bagley

**TOWNSHIP OF BAGLEY
STATEMENT OF NET ASSETS
MARCH 31, 2004**

| | PRIMARY GOVERNMENT | |
|-----------------------------------|------------------------------------|---------------------------|
| | GOVERNMENTAL ACTIVITIES | COMPONENT UNIT |
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 166,011 | \$ 126,127 |
| Certificates of Deposit | 1,420,563 | - |
| Due from Tax Collection Fund | 2,904 | 28 |
| Due from Other Governmental Units | 16,715 | 4,781 |
| Total Current Assets | 1,606,193 | 130,936 |
| Non Current Assets: | | |
| Capital Assets | 1,742,088 | - |
| Accumulated Depreciation | (252,977) | - |
| Total Non Current Assets | 1,489,111 | - |
| Total Assets | 3,095,304 | 130,936 |
| LIABILITIES | | |
| Current Liabilities: | | |
| Accounts Payable | 21,733 | - |
| NET ASSETS | | |
| Invested in Capital Assets | 1,489,111 | - |
| Unrestricted | 1,584,460 | 130,936 |
| Total Net Assets | \$ 3,073,571 | \$ 130,936 |

See accompanying notes to financial statements.

**TOWNSHIP OF BAGLEY
STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2004**

| | PROGRAM REVENUES | | | NET (EXPENSE) REVENUES & CHANGE IN NET ASSETS | |
|---|------------------|-------------------------|---|---|--------------|
| | EXPENSES | CHARGES FOR SERVICES | OPERATING GRANTS & CONTRI- BUTIONS | CAPITAL GRANTS & CONTRI- BUTIONS | TOTAL |
| GOVERNMENTAL ACTIVITIES | | | | | |
| Administration | \$ (256,713) | \$ 16,216 | \$ - | \$ - | \$ (240,497) |
| Township Hall | (8,988) | 100 | - | - | (8,888) |
| Elections | (3,916) | - | - | - | (3,916) |
| Fire Protection | (93,035) | - | - | - | (93,035) |
| Liquor Law Enforcement | (2,400) | - | 2,743 | - | 343 |
| Roads | (6,375) | - | - | - | (6,375) |
| Street Lights | (7,022) | - | - | - | (7,022) |
| Planning/Zoning | (4,431) | 470 | - | - | (3,961) |
| Total Governmental Activities | (382,880) | 16,786 | 2,743 | - | (363,351) |
| | | | | | (13,018) |
| GENERAL REVENUES | | | | | |
| Property Taxes: | | | | | |
| DDA TIFA | | | | | 46,400 |
| State Shared (not restricted to specific purpose) | | | | | - |
| Act 425 | | | | | 392,456 |
| Interest | | | | | 16,295 |
| Miscellaneous | | | | | 23,453 |
| Total General Revenues | | | | | 1,144 |
| | | | | | - |
| | | | | | 47,544 |
| CHANGE IN NET ASSETS | | | | | |
| | | | | | 34,526 |
| NET ASSETS - BEGINNING OF YEAR | | | | | 96,410 |
| NET ASSETS - END OF YEAR | | | | | \$ 130,936 |

See accompanying notes to financial statements.

**TOWNSHIP OF BAGLEY
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2004**

| | <u>MAJOR FUND</u> | <u>NON-MAJOR FUND</u> | |
|------------------------------------|-----------------------|---------------------------|--------------|
| | <u>GENERAL</u> | <u>LIQUOR</u> | <u>TOTAL</u> |
| ASSETS | | | |
| Cash | \$ 134,295 | \$ 31,716 | \$ 166,011 |
| Certificates of Deposit | 1,420,563 | - | 1,420,563 |
| Due From Other Funds | 2,904 | - | 2,904 |
| Due from Other Governments | 16,128 | - | 16,128 |
| Accounts Receivable | 587 | - | 587 |
| | <hr/> | <hr/> | <hr/> |
| Total Assets | 1,574,477 | 31,716 | 1,606,193 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| LIABILITIES AND FUND EQUITY | | | |
| Liabilities: | | | |
| Accounts Payable | 21,733 | - | 21,733 |
| | <hr/> | <hr/> | <hr/> |
| Fund Equity: | | | |
| Fund Balance - Undesignated | 1,404,494 | 31,716 | 1,436,210 |
| Fund Balance - Designated | 148,250 | - | 148,250 |
| | <hr/> | <hr/> | <hr/> |
| Total Fund Balance | 1,552,744 | 31,716 | 1,584,460 |
| | <hr/> | <hr/> | <hr/> |
| Total Liabilities and Fund Equity | \$ 1,574,477 | \$ 31,716 | \$ 1,606,193 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

See accompanying notes to financial statements.

**TOWNSHIP OF BAGLEY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
MARCH 31, 2004**

| | |
|---|---------------------|
| TOTAL FUND BALANCES - GOVERNMENTAL ACTIVITIES (PER BALANCE SHEET - PAGE 8) | \$ 1,584,460 |
|---|---------------------|

Amounts reported for governmental activities in the Statement of Net Assets (page 6) are different because:

| | |
|--|-----------|
| Capital assets used in governmental activities are not financial resources and therefore are not recorded in the funds | 1,489,111 |
|--|-----------|

| | |
|--|---------------------|
| TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES (PER STATEMENT OF NET ASSETS - PAGE 6) | \$ 3,073,571 |
|--|---------------------|

See accompanying notes to financial statements.

TOWNSHIP OF BAGLEY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED MARCH 31, 2004

| | <u>MAJOR FUND</u> | <u>NON-MAJOR FUND</u> | |
|---|-----------------------|---------------------------|---------------------|
| | <u>GENERAL</u> | <u>LIQUOR</u> | <u>TOTAL</u> |
| REVENUES | | | |
| State Sources: | | | |
| State Shared Revenue | \$ 392,456 | \$ 2,743 | \$ 395,199 |
| Summer Tax Collection Reimburseme | 13,563 | - | 13,563 |
| Local Sources: | | | |
| Otsego County Contribution | - | - | - |
| Bagley Township Contribution | - | - | - |
| Interest | 22,481 | - | 22,481 |
| Permits and Hall Rent | 570 | - | 570 |
| Act 425 Income | 16,295 | - | 16,295 |
| Miscellaneous | 5,395 | - | 5,395 |
| Total Revenues | <u>450,760</u> | <u>2,743</u> | <u>453,503</u> |
| EXPENDITURES | | | |
| General Government | 502,435 | - | 502,435 |
| Public Safety: | | | |
| Liquor Law Enforcement | 1,200 | 1,200 | 2,400 |
| Fire Safety | 84,153 | - | 84,153 |
| Street Lights | 7,022 | - | 7,022 |
| Public Works: | | | |
| Roads | 6,375 | - | 6,375 |
| Total Expenditures | <u>601,185</u> | <u>1,200</u> | <u>602,385</u> |
| Excess (Deficiency) of Revenues over Expenditures | (150,425) | 1,543 | (148,882) |
| Fund Balance - Beginning of Year | 1,703,169 | 30,173 | 1,733,342 |
| Fund Balance - End of Year | <u>\$ 1,552,744</u> | <u>\$ 31,716</u> | <u>\$ 1,584,460</u> |

See accompanying notes to financial statements.

**TOWNSHIP OF BAGLEY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED MARCH 31, 2004**

| | | |
|--|----|-----------|
| NET CHANGE IN FUND BALANCE - TOTAL GOVERNMENTAL FUNDS (PER STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - PAGE 10) | \$ | (148,882) |
|--|----|-----------|

Amounts reported for governmental activities in the statement of activities (page 7) are different because:

| | | |
|--|--|----------|
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives. | | 236,518 |
| Depreciation expense is recorded in the statement of activities but not the governmental fund financial statements. | | (17,013) |

| | | |
|--|----|--------|
| CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES (PER STATEMENT OF ACTIVITIES - PAGE 7) | \$ | 70,623 |
|--|----|--------|

See accompanying notes to financial statements.

**TOWNSHIP OF BAGLEY
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
MARCH 31, 2004**

| | | |
|-----------------------|--------------------|-------------|
| | ASSETS | |
| Cash | | \$ 3,509 |
| | | <hr/> |
| | LIABILITIES | |
| Due to Other Funds | | 2,904 |
| Due to Component Unit | | 28 |
| Due to Others | | 577 |
| | | <hr/> |
| Total Liabilities | | 3,509 |
| | | <hr/> |
| | NET ASSETS | |
| Fiduciary Net Assets | | \$ - |
| | | <hr/> <hr/> |

See accompanying notes to financial statements.

TOWNSHIP OF BAGLEY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
YEAR ENDED MARCH 31, 2004

| | |
|---|--------------|
| ADDITIONS | |
| Property Tax Collections for Other Governments | \$ 5,227,507 |
| Property Tax Collections for Component Unit | 46,400 |
| Interest Earnings | 2,110 |
| | <hr/> |
| Total Additions | 5,276,017 |
| | <hr/> |
| DEDUCTIONS | |
| Property Tax Distributions to Other Governments | (5,227,507) |
| Property Tax Distributions to Component Unit | (46,400) |
| Interest Distributions | (2,110) |
| | <hr/> |
| Total Distributions | (5,276,017) |
| | <hr/> |
| Change in Net Assets | - |
| | <hr/> |
| Fiduciary Net Assets - Beginning of Year | - |
| | <hr/> |
| Fiduciary Net Assets - End of Year | \$ - |
| | <hr/> |
| | <hr/> |

See accompanying notes to financial statements.

**TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2004**

NOTE A: ENTITY

The Township of Bagley is a general law township of the State of Michigan located in Otsego County, Michigan. It operates under an elected board and provides service to its residents in many areas including law enforcement, community enrichment, and human services. The criteria established for determining various governmental functions to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financing relationships. On this basis, the financial statements include all of the governmental functions of Bagley Township.

The Otsego County Fire Board provides fire protection services to the Township. The Board is comprised of several governmental units in Otsego County including Bagley Township. The Township's respective share of the Fire Board's assets have been included in these financial statements. The Township does not have oversight responsibility for the Otsego County Fire Board. The Fire Board is audited under separate cover and may be obtained at The City of Gaylord, 225 West Main, Gaylord, Michigan, 49735.

COMPONENT UNIT

On October 11, 1999, the Township created the Township of Bagley Downtown Development Authority under Public Act 197 of the State of Michigan of 1975 as amended. The Authority will use tax increment financing to fund its operations. The activity of the Authority is recorded as a discretely presented component unit of Bagley Township. Audited financial statements for the component unit are located at: 2946 S. Otsego Ave., Gaylord, MI 49735.

JOINT VENTURE

On May 17, 2000, the Township, along with the Township of Otsego Lake in Otsego County, created the Bagley Township/Otsego Lake Township Utilities Authority to construct and manage utilities as needed. Audited financial statements for the joint venture are located at 2946 South Otsego Avenue, Gaylord, MI 49735.

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

The accounting and reporting framework and the more significant accounting principles and practices of the Bagley Township are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations including required disclosures of the Township's financial activities.

The accounting policies of Bagley Township conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2004

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

On April 1, 2002, Bagley Township adopted the new governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" and Statement No. 38 "Certain Financial Statement Note Disclosures".

Under the provisions of GASB Statements No. 34 and 38, the focus of the Township's financial statements has shifted from a fund focus to a government-wide focus.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION

Government-Wide Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Township as a whole, excluding fiduciary activities such as tax collection activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Township general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. The Township has no business-type activities.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Township's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not classified as program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported in separate columns with composite columns for non-major funds.

TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2004

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION
(CONTINUED)**

The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

FUND TYPES AND MAJOR FUNDS

Governmental Funds

The Township reports the following major governmental fund:

General Fund - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from state distributions and interest earnings.

The Township has one non-major fund – Liquor Law Enforcement Fund.

Other Funds

Fiduciary Fund - This is used to account for assets held in trust or as an agent for others. Tax collection activities are recorded in this category. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial statements of the Township are prepared in accordance with generally accepted accounting principles (GAAP). The Township applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Township does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

**TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2004**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)

Government-Wide Financial Statements

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized when grantor eligibility requirements are met.

Governmental Fund Financial Statements

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Township considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

The Township levies no property tax.

Taxes for the Bagley Township Downtown Development Authority, a component unit of the Township, represent a tax-increment financed capture and are recognized as revenue in that fiscal year. Taxes are assessed on a lien date of December 1st and are recorded as revenue at that time.

BUDGET

Public Act 621 of 1978 as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional and activity basis. The approved budgets of the Township for these budgetary funds were adopted on a fund basis.

**TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2004**

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGET (CONTINUED)

During the year ended March 31, 2004, no fund overspent its budget. Budgets as adopted end on March 31, of each year. There are no carryover budget items. Budgets are adopted on the modified accrual basis of accounting. Amendments are made to the budgets when determined to be necessary throughout the year. The budgets presented are both the original and final amended amounts.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates

CAPITAL ASSETS AND DEPRECIATION

The Townships property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The Township owns no infrastructure assets. Donated assets are stated at fair value on the date donated. The Township generally capitalizes assets with historical cost of \$3,500 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

| | |
|-------------------------------------|--------|
| Buildings | 5 – 50 |
| Improvements, other than buildings | 2 – 50 |
| Mobile equipment | 3 – 30 |
| Furniture, machinery, and equipment | 3 – 30 |

For information describing capital assets, see Note F.

**LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND
DISCOUNTS/PREMIUMS**

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effect of interest method.

TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2004

NOTE B: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**LONG-TERM DEBT, DEFERRED DEBT EXPENSE, AND BOND
DISCOUNTS/PREMIUMS (CONTINUED)**

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

As of March 31, 2004, the Township has no outstanding long-term debt.

NOTE C: COMMON BANK ACCOUNTS

The Township combines all funds except Trust and Agency (tax collection) and petty cash into common checking accounts. Balances at March 31, 2004 are as follows:

| COMMON CHECKING | |
|------------------------|------------------|
| General | \$133,795 |
| Liquor | <u>31,716</u> |
| Total | <u>\$165,511</u> |

NOTE D: CASH AND CERTIFICATES OF DEPOSIT

Investments can be made in certificates of deposit, bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States, which are guaranteed as to principal and interest by the United States, including securities issued by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the three highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase and which involve no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Township's deposits are in accordance with statutory authority.

In accordance with GASB Statement 3, cash is classified into three categories of credit risk as follows:

Category 1: Insured or collateralized with securities held by the Local Unit or its agent in the Local Unit's name.

Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the Local Unit's name.

TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2004

NOTE D: CASH AND CERTIFICATES OF DEPOSIT (CONTINUED)

Category 3: Uncollateralized (includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Local Unit's name).

| | BANK BALANCE | RISK CATEGORIES | | | CARRYING AMOUNT |
|-------------------------|---------------------|-------------------|-------------|---------------------|---------------------|
| | | 1 | 2 | 3 | |
| Common Checking | \$ 169,603 | \$ 100,000 | \$ - | \$ 69,603 | \$ 165,511 |
| Certificates of Deposit | 1,420,563 | 200,000 | - | 1,220,563 | 1,420,563 |
| Petty Cash | - | - | - | - | 500 |
| TOTAL | <u>\$ 1,590,166</u> | <u>\$ 300,000</u> | <u>\$ -</u> | <u>\$ 1,290,166</u> | <u>\$ 1,586,574</u> |
| Trust & Agency Checking | \$ 45,074 | \$ 45,074 | \$ - | \$ - | \$ 3,509 |

At the year end, the balance sheet carrying amount of deposits was equal to amounts above.

NOTE E: INTERFUND RECEIVABLES AND PAYABLES

The tax fund (an agency fund type) owes \$2,904 to the general fund as of March 31, 2004. The balance consists of unremitted interest income earned, and other miscellaneous amounts.

NOTE F: CAPITAL ASSETS

| | <u>CAPITAL ASSETS NOT DEPRECIATED</u> | | <u>CAPITAL ASSETS DEPRECIATED</u> | | | |
|---------------------------------|---------------------------------------|-----------------------------|-----------------------------------|-------------------------|------------------|--------------------|
| | Land & Improv. | Construction In Progress | Buildings | Furniture & Fixtures | Equipment | Totals |
| Governmental Activities | | | | | | |
| Capital Assets | | | | | | |
| Balance, April 1, 2003 | \$712,706 | \$278,740 | \$125,262 | \$ 4,435 | \$384,427 | \$1,505,570 |
| Increases | - | 236,518 | - | - | - | 236,518 |
| Decreases | - | - | - | - | - | - |
| Balance, March 31, 2004 | <u>\$712,706</u> | <u>\$515,258</u> | <u>\$125,262</u> | <u>\$ 4,435</u> | <u>\$384,427</u> | <u>\$1,742,088</u> |
| Governmental Activities | | | | | | |
| Accumulated Depreciation | | | | | | |
| Balance, April 1, 2003 | \$ - | \$ - | \$ 57,602 | \$ 2,218 | \$176,144 | \$ 235,964 |
| Increases | - | - | 3,145 | 444 | 13,424 | 17,013 |
| Decreases | - | - | - | - | - | - |
| Balance, March 31, 2004 | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 60,747</u> | <u>\$ 2,662</u> | <u>\$189,568</u> | <u>\$ 252,977</u> |
| Total Primary Government | <u>\$712,706</u> | <u>\$515,258</u> | <u>\$ 64,515</u> | <u>\$ 1,773</u> | <u>\$194,859</u> | <u>\$1,489,111</u> |

**TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2004**

NOTE F: CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the Township's functions as follows:

| | |
|-----------------|-----------------|
| Administration | \$ 3,986 |
| Township Hall | 3,145 |
| Elections | 1,000 |
| Fire Protection | <u>8,882</u> |
| | <u>\$17,013</u> |

NOTE G: 425 AGREEMENT

Bagley Township has several contracts for transfer of property with the City of Gaylord which is governed pursuant to P.A. 1984 NO. 425. The contract shall be in effect for 16 years from date of contracts. Bagley Township allows the City of Gaylord to extend water and sewer service to the property. During the contract the property shall be part of the jurisdiction of the City of Gaylord for all purposes and any revenues generated by the property belongs to the City. Upon expiration, the contract shall be renewable in whole or in part for an additional 10 years upon mutual agreement. The Township recognized \$16,295 in Act 425 income in the current year.

NOTE H: INSURANCE

The Township is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The Township participates in the Michigan Municipal Liability and Property Pool, a self-insured group. The pool is considered a public entity risk pool. The Township pays annual premiums to the pool for the respective insurance coverage. In the event a pool's total claims and expense for a policy year exceed the total normal annual premiums for said years, all members of the pool's year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type of coverage of reinsurance. The Township has not been informed of any special assessments being required. There were no significant changes in coverage, nor were there any significant claims for the year. The Township carries commercial insurance for other types of losses, including accident insurance.

TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2004

NOTE I: PENSION PLAN

Pursuant to Act 27 of P.A. 1960, as amended Bagley Township adopted a pension plan effective December 1, 1968 and was amended in 1989. The name of the plan is *Manulife Financial Defined Contribution Pension Plan For Governmental Employees*. The Township contributes annually based on compensation paid over a fiscal year ending November 30th. Contributions range from a minimum of \$100 to a maximum of \$500. The Township contributes 75% and the employee contributes 25%. Employees may also make voluntary contributions up to IRS Code Section 415 limits.

| | |
|------------------------|----------------|
| Township Contributions | \$4,385 |
| Employee Contributions | <u>2,795</u> |
| Total Contributions | <u>\$7,180</u> |

Employees' eligibility begins on the date of employment. All participants are vested 100%. Employees may participate until age 80. Normal retirement is age 65 or upon completion of 10 years of service whichever is later. Early retirement is permitted at age 55.

The plan is maintained with the Manufacturers Life Insurance Company. The total pension expense for the year was \$4,385 which meets the contribution requirements of the Township. There were no substantial changes in the plan for the year.

NOTE J: RELATED PARTIES

Mary Yager, Township Treasurer, is also employee of Northwestern Savings Bank, where Bagley Township holds significant deposits.

NOTE K: COMMITMENTS/DESIGNATED FUND BALANCE

In October 2003, the Township committed resources of \$176,250 in local match funds related to public improvements for an expansion project at Beaver Creek Resort. The total paid toward the project is \$31,500, leaving a balance of \$144,750 that is committed to be paid upon completion of the project.

In December 2003, the Township committed resources of \$3,500 towards developing a watershed plan for Otsego Lake.

Total commitments are recorded as designated fund balance in the amount of \$148,250.

**TOWNSHIP OF BAGLEY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED MARCH 31, 2004**

NOTE L: COMPARATIVE DATA

Comparative total data for the prior year have been presented in the supplemental financial data in order to provide an understanding of the changes in the Township's financial operations. However, comparative data has not been presented in every statement.

TOWNSHIP OF BAGLEY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - WITH COMPARATIVE ACTUAL AMOUNTS
FOR THE YEAR ENDED MARCH 31, 2003
GENERAL FUND
YEAR ENDED MARCH 31, 2004

| | ORIGINAL BUDGET | AMENDED BUDGET | ACTUAL | VARIANCE FROM AMENDED BUDGET | PRIOR YEAR ACTUAL |
|--|--------------------|-------------------|----------------|---------------------------------------|-------------------------|
| REVENUES | | | | | |
| State Sources: | \$ 251,000 | \$ 251,000 | \$ 392,456 | \$ 141,456 | \$ 422,856 |
| State Shared Revenue | | | | | |
| Summer Tax Collection | - | - | 13,563 | 13,563 | - |
| Reimbursement | | | | | |
| Local Sources: | 52,000 | 52,000 | 23,453 | (28,547) | 53,291 |
| Interest | - | - | 16,295 | 16,295 | 4,086 |
| Act 425 Income | 500 | 500 | 470 | (30) | 494 |
| Licenses and Permits | 100 | 100 | 100 | - | - |
| Rents and Royalties | - | - | 4,423 | 4,423 | 269 |
| Other Income | | | | | |
| Total Revenues | <u>303,600</u> | <u>303,600</u> | <u>450,760</u> | <u>147,160</u> | <u>480,996</u> |
| EXPENDITURES | | | | | |
| GENERAL GOVERNMENT | | | | | |
| Township Board: | | | | | |
| Salaries | 12,000 | 12,000 | 8,999 | 3,001 | 9,000 |
| Payroll Taxes | 4,500 | 4,500 | 4,246 | 254 | 3,629 |
| Medical Reimbursement | 21,000 | 21,000 | 10,000 | 11,000 | 7,500 |
| Pension Plan | 12,000 | 12,000 | 4,385 | 7,615 | 4,538 |
| Office Supplies | 3,000 | 3,000 | 9,122 | (6,122) | 1,816 |
| Professional Services | 40,000 | 40,000 | 27,419 | 12,581 | 20,164 |
| Contract Services | 3,000 | 4,000 | 18,444 | (14,444) | 2,124 |
| Communications | 2,000 | 2,000 | 1,411 | 589 | 1,298 |
| Transportation | 100 | 100 | - | 100 | - |
| Printing and Publishing | 1,000 | 1,000 | 2,054 | (1,054) | 696 |
| Insurance and Bonds | 7,500 | 8,500 | 7,776 | 724 | 7,106 |
| Membership and Dues | 4,800 | 4,800 | 3,999 | 801 | 3,937 |
| Equipment | 4,500 | 4,500 | 2,695 | 1,805 | - |
| Local Match - Beaver Creek Construction Project | 35,000 | 35,000 | 31,500 | 3,500 | - |
| Total Township Board | <u>150,400</u> | <u>152,400</u> | <u>132,050</u> | <u>20,350</u> | <u>61,808</u> |
| Township Supervisor: | | | | | |
| Salary | 18,300 | 18,300 | 17,152 | 1,148 | 17,152 |
| Supplies | 300 | 300 | - | 300 | 7 |
| Total Township Supervisor | <u>18,600</u> | <u>18,600</u> | <u>17,152</u> | <u>1,448</u> | <u>17,159</u> |
| Election Board: | | | | | |
| Salaries | 8,000 | 8,000 | 2,269 | 5,731 | 2,588 |
| Supplies | 4,000 | 4,000 | 647 | 3,353 | 2,720 |
| Contract Services | 500 | 500 | - | 500 | 240 |
| Equipment | 10,000 | 10,000 | - | 10,000 | - |
| Total Election Board | <u>22,500</u> | <u>22,500</u> | <u>2,916</u> | <u>19,584</u> | <u>5,548</u> |
| Township Assessor: | | | | | |
| Salaries | 50,000 | 50,000 | 48,284 | 1,716 | 40,975 |
| Supplies | 5,000 | 5,000 | 4,566 | 434 | 1,949 |
| Contract Service | 500 | 2,500 | 1,980 | 520 | 1,605 |
| Mileage | 1,500 | 1,500 | 437 | 1,063 | - |
| Equipment | 11,000 | 16,000 | - | 16,000 | 4,012 |
| Total Township Assessor | <u>68,000</u> | <u>75,000</u> | <u>55,267</u> | <u>19,733</u> | <u>48,541</u> |

TOWNSHIP OF BAGLEY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - WITH COMPARATIVE ACTUAL AMOUNTS
FOR THE YEAR ENDED MARCH 31, 2003
GENERAL FUND
YEAR ENDED MARCH 31, 2004

| | ORIGINAL BUDGET | AMENDED BUDGET | ACTUAL | VARIANCE FROM AMENDED BUDGET | PRIOR YEAR ACTUAL |
|---|--------------------|-------------------|---------------------|---------------------------------------|-------------------------|
| Township Clerk: | | | | | |
| Salary | 20,300 | 20,300 | 20,196 | 104 | 20,196 |
| Supplies | 2,000 | 3,500 | 2,820 | 680 | 3,427 |
| Equipment | 4,000 | 4,000 | - | 4,000 | 39 |
| Total Township Clerk | 26,300 | 27,800 | 23,016 | 4,784 | 23,662 |
| Board of Review: | | | | | |
| Salaries | 3,000 | 3,000 | 1,450 | 1,550 | 1,450 |
| Mileage | 300 | 300 | 1,620 | (1,320) | - |
| Total Board of Review | 3,300 | 3,300 | 3,070 | 230 | 1,450 |
| Township Treasurer: | | | | | |
| Salaries | 20,400 | 20,400 | 20,196 | 204 | 20,196 |
| Supplies | 4,000 | 5,500 | 3,591 | 1,909 | 4,491 |
| Contract Services | 1,000 | 2,500 | 1,358 | 1,142 | 1,444 |
| Equipment | 3,000 | 3,000 | 97 | 2,903 | - |
| Total Township Treasurer | 28,400 | 31,400 | 25,242 | 6,158 | 26,131 |
| Township Hall: | | | | | |
| Supplies | 300 | 500 | 145 | 355 | 119 |
| Contract Services | 4,500 | 4,500 | 2,888 | 1,612 | 2,444 |
| Utilities | 2,500 | 4,000 | 2,061 | 1,939 | 2,635 |
| Repair and Maintenance | 5,000 | 5,000 | 749 | 4,251 | 300 |
| Improvements | 10,000 | 10,000 | - | 10,000 | - |
| Total Township Hall | 22,300 | 24,000 | 5,843 | 18,157 | 5,498 |
| Planning and Zoning | 2,550 | 2,550 | 1,361 | 1,189 | 750 |
| Total General Government | 342,350 | 357,550 | 265,917 | 91,633 | 190,547 |
| PUBLIC SAFETY | | | | | |
| Liquor Law Enforcement | 2,700 | 2,700 | 1,200 | 1,500 | 800 |
| Fire Protection | 100,000 | 100,000 | 84,153 | 15,847 | 84,574 |
| Street Lights | 10,000 | 10,000 | 7,022 | 2,978 | 6,585 |
| Total Public Safety | 112,700 | 112,700 | 92,375 | 20,325 | 91,959 |
| PUBLIC WORKS | | | | | |
| Roads | 95,500 | 120,500 | 6,375 | 114,125 | 110,292 |
| Waste Water Project | 797,000 | 756,800 | 236,518 | 520,282 | 1,750 |
| Total Public Works | 892,500 | 877,300 | 242,893 | 634,407 | 112,042 |
| Total Expenditures | 1,347,550 | 1,347,550 | 601,185 | 746,365 | 394,548 |
| Excess (Deficiency) of Revenues over Expenditures | (1,043,950) | (1,043,950) | (150,425) | 893,525 | 86,448 |
| Fund Balance - Beginning of Year | 1,703,169 | 1,703,169 | 1,703,169 | - | 1,616,721 |
| Fund Balance - End of Year | \$ 659,219 | \$ 659,219 | \$ 1,552,744 | \$ 893,525 | \$ 1,703,169 |